

Water Utilities

Price:	\$45.56
Fair Value Estimate:	\$70.00
52-Week Range:	\$30.40 - \$54.52
Market Cap (MM):	11,164
Shr.O/S-Diluted (mm):	245.0
Average Daily Volume:	1,148,358
Book Value:	\$18.83
Dividend:	\$1.00
Yield:	2.2%

FYE: Dec	2019A	2020E	2021E
EPS:	\$1.47A	\$1.58E	\$1.67E
Prior EPS:		NC	NC
P/E Ratio:	31.0x	28.8x	27.3x

Quarterly EPS:

Q1	\$0.28A	\$0.60A	\$0.66E
Q2	\$0.37A	\$0.29A	\$0.23E
Q3	\$0.48A	\$0.22E	\$0.26E
Q4	\$0.34A	\$0.47E	\$0.52E

EPS: adjusted

Quarterly Revenue (M):

Q1	\$201A	\$256A	\$773E
Q2	\$219A	\$352E	\$342E
Q3	\$244A	\$342E	\$360E
Q4	\$226A	\$541E	\$579E
Year:	\$890A	\$1,491E	\$2,053E



August 7, 2020

Essential Utilities Inc.

(WTRG) - BUY

Quarterly Results Above Expectations; Reiterate BUY Rating, \$70 Fair Value

PORTFOLIO MANAGER BRIEF

WTRG's 2Q20 results exceeded our and consensus expectations both on the top and bottom line. Favorable weather and higher consumption patterns among residential customers offset negative impacts from COVID-19 across C&I segments, and with 3Q weather patterns that have been hot and dry (excluding Monday's wild storm across much of the Company's service territory), the set-up is there for WTRG to meet (or exceed) the top end of its 2020 guidance range, which it reaffirmed. We reiterate our BUY rating and \$70 Fair Value, based on a P/E of 42x our 2021 EPS estimate of \$1.67. We continue to use estimated dividend growth over a 10-year period pegged to a 1.5% U.S. 10-year T-Note yield to derive our valuation and corresponding P/E multiple.

ANALYST NOTES

- Nothing but Good News in 2Q. On the top line, revenues of \$384MM were well above our forecast of \$352MM (consensus was \$371MM) as favorable weather (for both the natural gas and water segments) and higher residential water consumption offset negative impacts across the commercial and industrial segments. On the bottom line, EPS of \$0.29 was just a touch above our \$0.28 estimate, but well above consensus of \$0.23.
- Acquisitions and CAPEX Tracking to Plan. Acquisitions and organic growth in 1H20 increased the company's customer count by 1.2% (full year target is 2-3%, all in the water segment). Essential has signed purchase agreements that will add the equivalent of over 200,000 water & wastewater customers (\$300MM of rate base). The bulk of that growth is tied to its planned DELCORA acquisition, which is expected to close in early 2021. In terms of investments, \$293MM in 1H20 thus far, with a target of \$550MM in the Water segment. For the natural gas operations, \$400MM is planned for 2020 (including capital invested prior to ownership).
- Dividend Increased 7%. Essential Utilities began the week by announcing a 7% dividend increase on Monday, inline with our previous expectations. We watch dividend increases closely, given we set our Fair Value assumptions based on dividend CAGR's aligned with an anticipated US 10YR TNOTE yield of 1.5% in 2030.
- Guidance Maintained. For full year 2020, the guidance highlights are: adjusted EPS in the range of \$1.53 to \$1.58, earnings growth CAGR of 5-7% for the 2019-2022 time period, and CAPEX of \$2.8B through 2022.

- Summary/Valuation. Essential's first full quarter owning Peoples Gas generated better-than-expected results, which will likely boost investor confidence that it can hit its financial targets and integrate big acquisitions without hiccups. That should lead to expanded valuation metrics and higher share prices. The set-up for WTRG to outperform in 3Q is in place; weather has been near-perfect since the start of the quarter July 1st (excluding Monday's torrential rains up and down the East Coast); NOAA's 8-14 day weather forecasts are calling for a continuation of the trend in the Mid-Atlantic region, where the Company has significant customer concentrations. We reiterate our BUY rating and \$70 Fair Value, based on a P/E of 42x our 2021 EPS estimate of \$1.67. We continue to use estimated dividend growth over a 10-year period pegged to a 1.5% U.S. 10-year T-Note yield to derive our valuation and corresponding P/E multiple. Our anticipated dividend CAGR over the period is 7.5%.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Michael Gaugler, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Essential Utilities Inc. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC client. Janney Montgomery Scott LLC, provided investment banking related services.

Janney Montgomery Scott LLC currently acts as a market-maker in the securities of Essential Utilities Inc..

Janney Montgomery Scott LLC managed or co-managed a public offering of securities for Essential Utilities Inc. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from Essential Utilities Inc. in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Essential Utilities Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

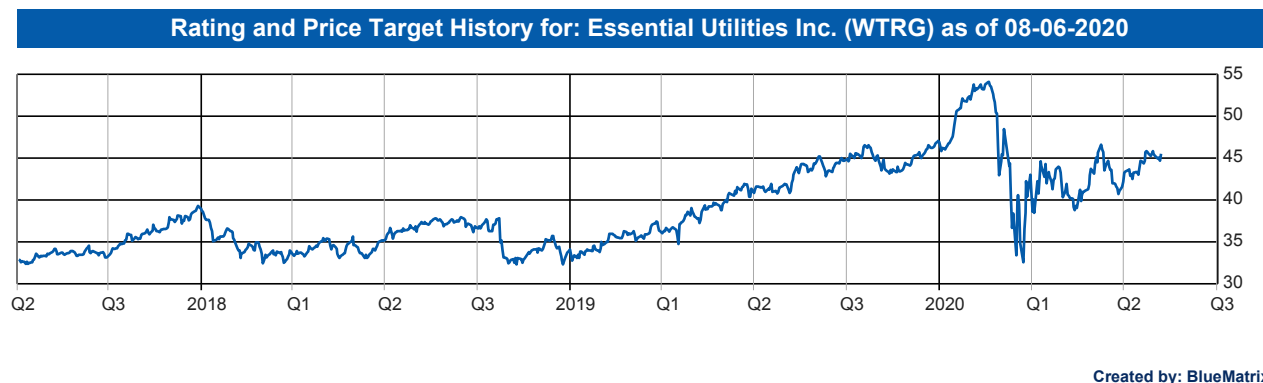
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 06/30/2020

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	116	46.40	26	22.41
NEUTRAL [N]	133	53.20	21	15.79
SELL [S]	1	0.40	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

Other Disclosures

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